

Update on Northern Ireland

It looks as if some at the heart of government thought a trade agreement over red and green lanes would be sufficient to fix Northern Ireland and EU issues. It seems that the meeting with Unionists pointed out to the Prime Minister that the application of EU law in Northern Ireland was the bigger matter where the EU had not made the changes required. Under the Protocol itself parties are meant to give priority to the Good Friday Agreement which needs the consent of both communities to any changes. The Unionist community does not agree to the EU approach to the Protocol and to lawmaking for NI. As a result the Prime Minister doubled down on his words that there was still no Agreement to publish. He required his negotiators to return to the EU to sort out the issue of law making and enforcement in NI.

The Protocol was meant to be a temporary or holding arrangement. The EU needs to reconsider its position on these matters to assist in restoring Stormont and the tradition of working through the agreement of both communities.

Tax cuts can bring in more revenue

One of the main arguments ahead of the budget is the one about what changes you get in revenue if you put tax rates up and if you cut tax rates. This is especially important and hotly contested over business taxes. UK corporation tax revenues increased as George Osborne cut rates. The Republic of Ireland collects proportionately much more tax from business by having a much lower rate than us and attracting many large businesses to locate more in the Republic. Indeed, in 2022 Ireland collected 24.4% of its total tax revenues from corporation tax with a 12.5% rate. The UK only managed 9% of tax revenues with a 19% rate.

There are also studies showing that if tax free shopping is allowed for visiting foreigners the UK will collect more tax overall, as it will boost taxation on shop profits and shop employee incomes and on the hotels and other facilities the visitors use. UK revenues have been very sensitive to overall economic growth rates, rising more than official forecasts when times are improving, and producing less revenue than expected when growth falls away.

I noticed in the recent Sunday Times survey of economic forecast outturns the official OBR performed relatively badly in the table for 2022, reminding us how difficult it is for Chancellors to make the right policy judgements when the supporting forecasts can be well off.

The role of profits

Angered by the cost of living squeeze and sky high energy prices, many people are now hostile to the whole idea of company profits. It is encouraging them to demand ever higher windfall taxes to confiscate more or less the whole profit, and leads on to demands for nationalisation. It is perhaps time to remind ourselves what profit making enterprises have achieved to raise our living standards, to provide well paid jobs and drive growth. It is also time to ask why countries like Venezuela that went the whole way in nationalising and imposing price controls ended up in poverty with large shortages. Many Venezuelans are fleeing the country to live somewhere where profits are allowed and living standards are higher.

The UK's own experience with nationalisation was poor. A nationalised steel industry put in five large integrated plants but could never sell enough of the steel given their cost levels and spent the next two decades arguing over how many people to sack and how many plants to close. The nationalised railway had a poor record on safety, punctuality and service. It sacked many staff as its market share of the travel market plunged downwards. It lost a fortune for taxpayers who had to pay the bills. A nationalised phone company fell years behind the USA where competing private sector companies leapt ahead with better service and newer technology. In the UK there was little choice of phone, long waits to get a line and rationing including having to share a line with the neighbour for many customers. The electricity industry relied on coal power stations when cleaner and more efficient gas was available. The industry leapt ahead driving costs and emissions down by putting in combined cycle gas plants as soon as it was privatised. The coal industry was in long term decline, with bitter disputes about job losses and mine closures.

Wherever price controls have been tried investment falls and supply reduces. This makes the problem worse. Rent controls seem like a great and popular idea, but as rent controls come in so people withdraw properties from rental and shelve plans to build more. This usually makes the property shortage worse and results in higher rents in the medium term than if controls had not been introduced.

The combination of double corporation tax, a planned rise in the rate of business tax by 31%, and windfall taxes that will be imposed for several years whether there are windfalls or not is putting companies off investing in UK oil and gas production. These taxes will not only mean we import more and become ever more dependent on high and volatile world prices, they will also mean we collect less revenue in future. We will lose out on taxing good cashflows from oil and gas fields under UK control, and watch as we pay high taxes to foreign governments to import their energy instead.

Profits are used to pay for investments in extra supply, which in turn

sustains more and better paid jobs. No profits, means no investments. Fewer investments means lower living standards.

[Article on NI protocol on facts4eu](#)

Facts4eu have published an updated version of my analysis of the Protocol issues on www.facts4eu.org/news/2023_feb_redwood_on_independence.

[Deal or no deal on the Protocol](#)

It is difficult to write about a deal where there is no text, and where the UK government assures us there is currently no deal over the Northern Ireland Protocol. Many of us would be delighted if there is an agreement to free the flow of goods within the UK to and from NI to GB, and even happier if there is an agreement to lift the way the EU wishes to impose its laws on NI that do not apply in the rest of the UK. So what are we to make of the fevered speculation that there is a deal in the offing?

The first scenario is I am afraid the least likely. In this the EU has at last realised its demands to have a border between GB and NI, and to require NI obeys all new EU laws does violate the first 3 Articles of the Protocol itself and prevents Unionists from returning to Stormont. They have kept their decision to make a revision to their demands secret whilst they get buy in, but we will be pleasantly surprised and will be able to welcome the new deal when announced. It will remove the democratic deficit, uphold the UK internal market and will look to the UK to ensure compliant goods only flow to the EU across the invisible Irish land border. Mutual enforcement where the UK enforces EU standards on all exports to the EU and vice versa has always been the sensible outcome. There is then no need for a physical border into NI nor into the EU. The UK has never proposed a new physical border into the UK from the Republic.

The second scenario is the EU and UK are close to having agreement on how the UK should manage an internal border, with relaxations for the bulk of goods which are internal trade within the UK. Without any agreement on EU laws and their enforcement by the EU's own court it is difficult to see how this could persuade the Unionists back into power sharing. Were the UK government to press ahead with this it could get it through Parliament because Labour has said it will support more or less any Agreement, but it will not resolve the larger Good Friday Agreement issues with the Unionists. It also leaves open how much electronic paperwork companies would need to

produce to satisfy EU demands for data on internal UK trade and whether this will still impede our internal market.

The third scenario is there are still genuine talks underway concerning the democratic deficit issues but the EU is reluctant to move. All the time the EU insists on imposing its laws and ECJ judgements on NI the UK government should decline to settle, knowing it will not sort out the Good Friday matters.